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British Columbia Investment Management Corporation

Performance Plan
2001/02 – 2003/04

bcimc Investment Management Corporation

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2001-2003 PERFORMANCE PLAN

Introduction

The British Columbia Investment Management Corporation ("bcIMC" or the "Corporation") has prepared this Performance Plan in accordance with the requirements of the *Budget Transparency and Accountability Act* ("BTAA"). The Plan summarizes the Corporation's detailed strategic business plan for the period 2001/02 to 2003/04.

bcIMC came into legal existence November 1, 1999 and became a fully functioning operating company on January 1, 2000. The Corporation is established under the *Public Sector Pension Plans Act* to provide investment management services to public sector pension funds, the Province of British Columbia, provincial government bodies and publicly administered trust funds. The Corporation is one of the largest institutional investors in Canada, with assets under administration of $62.3 billion as of December 31, 2000.

The Corporation is based in Victoria, B.C.

Mission Statement

Accountable to our clients, to provide professional fund management for all asset classes, exercising the highest standards of prudence and fiduciary responsibility, while returning to the client the highest rate of return for a given level of risk, at a reasonable cost.

Vision Statement

Our vision is to excel in everything we do.

bcIMC aims to be the fund manager of choice for the British Columbia public sector. We will accomplish this by building the trust of clients through superior investment management, open and clear communication, and high quality client service.

bcIMC operates in a global environment and can only achieve its mission by committing to "best practices" in our industry, by maintaining dynamic and robust information management systems, and through the value we place on our employees.

If the Corporation meets the expectations of its clients consistently over multiple time periods, the funds under management should double in size within the decade, maintaining the Corporation's status of being the third largest pool of capital in Canada. Size provides our clients with significant economies of scale, more extensive access to market opportunities and decision-makers, and the ability to shape good corporate governance.

bcIMC recognizes the demographic profile of its stakeholders and the importance of financial stability. Communicating and providing advice to the representatives of these funds will become increasingly important in the future.

Philosophy and Values

bcIMC's management philosophy is summarized in the following statements:

- Clear, open communication
- Simplify / clarify
- Look ahead
- Promote and recognize performance
- Be cost effective
- Value people

bcIMC's investment philosophy is expressed in the following statements:

1. bcIMC exists to serve its clients. This not only means providing good returns, but also includes helping clients understand the issues facing their funds and the potential impact of key investment decisions.

2. bcIMC strongly believes in three concepts:
   - diversification – diversification of assets and management approach reduces market risks and provides clients more stable rates of return;
   - discipline – investor sentiment can change quickly and a disciplined approach (e.g., systematically rebalancing) is essential to prevent the portfolios from being whipsawed by market forces; and
   - due diligence – making prudent decisions requires that we strive to understand all of the risks and returns of both existing holdings and new opportunities.

3. Investments are made for a specific purpose or objective (e.g., meeting pension obligations). A fund's investment strategy should be customized to reflect its purpose, time horizon, risk tolerance, legal constraints and liquidity requirements.

4. It is difficult to beat the market on a consistent basis. bcIMC is a strong proponent of quantitative/index style management techniques and believes it is critical that it monitor and manage the active risk incurred by internal and external fund managers.

5. bcIMC's greatest advantages are its staff and cost structure. Low costs are a function of the size of the operation and bcIMC's extensive use of technology. In terms of staff, it is critical that bcIMC provides a challenging and rewarding environment to help develop and retain key staff members to provide continuity to the organization.

Our values are captured in four words:

- Respect
- Integrity
- Honesty
- Trust

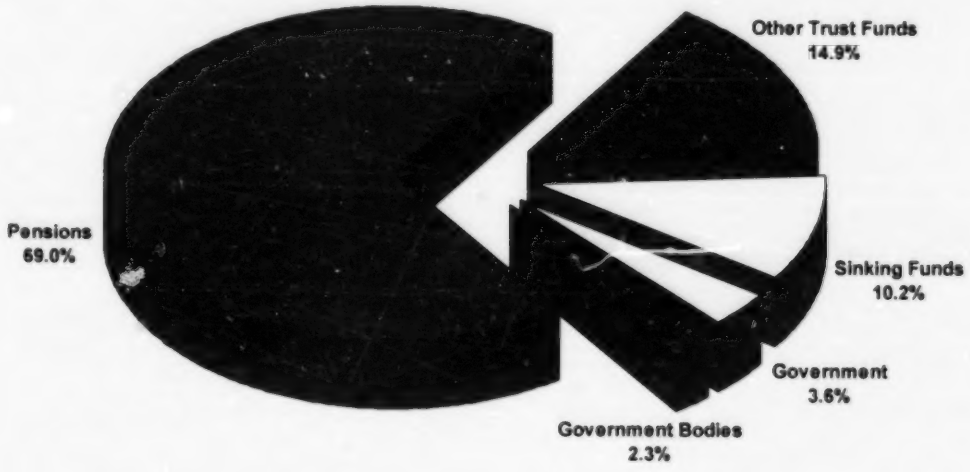
Investment Services

The Corporation offers its clients comprehensive portfolio services, including:

- trade execution, settlement and custody of securities
- portfolio management
- asset mix management
- consulting and investment advice
- hiring and monitoring of external investment managers
- economic and market reviews
- credit review and monitoring
- performance reporting
- trading
- policy analysis
- cash management services
- legal, regulatory and policy compliance
- risk analysis and management
- accounting reporting
- security lending
- corporate governance

Assets Under Administration

bcIMC had assets under administration of $62.3 billion as of December 31, 2000. Approximately 94 percent of the assets under administration are non-government trust funds. The chart below shows the distribution of assets among bcIMC's client group.



Each client's funds are invested in a mix of different asset classes that reflect the client's investment objectives and risk tolerance, as well as market conditions. In some cases, a client's funds may be invested in only one or a few asset classes.

While bcIMC manages some segregated assets, the Corporation's primary investment vehicles are pooled investment portfolios. This reduces costs and allows for a wider diversity of investments. As of December 31, 2000, bcIMC managed 38 pooled funds and administered segregated investments across the following eight asset classes:

Asset Class	$ Million	%
Short-Term[1]	5,906	9.5%
Mortgages	1,455	2.3%
Bonds	22,693	36.4%
Canadian Stocks	14,595	23.4%
U.S. Stocks	5,693	9.1%
Non-North American Stocks	6,426	10.3%
Real Estate	4,147	6.7%
Private Placements[2]	1,415	2.3%
Total	**62,330**	**100%**

[1] Includes money market and short-term bonds.
[2] Private Placements are non-publicly traded investments, typically venture or buyout capital.

Investment Returns

The following table sets out the rates of return for the major pooled funds within the above asset classes. These rates are annualized returns as of December 31, 2000.

Asset Class	One Year		Two Year		Three Year		Four Year		Five Year	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Short-Term										
Short-Term Fund 1	5.6	5.5	5.2	5.1	5.2	5.0	4.7	4.5	4.7	4.6
Short-Term Fund 2	5.8	5.5	5.4	5.1	5.3	5.0	4.9	4.5	4.9	4.6
Short-Term Bond Fund	8.2	8.2	5.3	5.2	5.8	5.7	5.5	5.5	6.5	6.5
Mortgages										
Fixed-Term Mortgage Fund	10.2	9.3	7.4	6.3	7.6	6.8	7.6	6.5	8.7	7.5
Construction Mortgage Fund	9.3	7.2	8.3	6.2	8.0	6.2	7.8	5.6	8.0	6.0
Bonds										
Indexed Government Bond Fund	10.8	10.6	4.6	4.4	6.2	6.1	7.0	6.9	8.0	8.0
Pensions' Bond Fund	10.8	10.6	4.4	4.4	6.1	6.1	7.0	6.9	8.0	8.0
Canadian Corporate Bond Fund	9.5	9.1	4.6	4.3	5.6	5.6	6.8	6.8	8.0	8.0
Canadian Stocks										
TSE 300 Index Equity Fund	8.6	7.4	19.5	18.9	12.5	11.7	13.2	12.5	16.1	15.5
TSE 100 Index Equity Fund	8.5	7.6	19.8	19.5	12.8	12.5	13.4	13.1	16.3	16.0
Active Canadian Equity Fund	18.7	7.4	19.1	18.9	11.4	11.7	12.5	12.5	15.9	15.5
U.S. Stocks										
S & P 500 Index Equity Fund	(5.7)	(5.9)	3.8	3.7	14.2	14.1	20.0	19.9	20.8	20.6
Active U.S. Equity Fund	(3.1)	(4.6)	5.8	4.4	14.1	14.1	18.6	19.8	19.4	20.5
Non-North American Stocks										
International Equity Fund	(10.7)	(11.2)	6.3	3.2	12.1	11.1	10.6	9.9	11.5	9.2
European Equity Fund	(6.9)	(5.2)	2.7	1.9	12.8	12.7	16.0	16.6	17.5	17.6
Asian Equity Fund	(36.0)	(23.2)	11.4	7.0	10.8	7.9	(0.8)	(0.5)	(1.1)	(2.1)
Real Estate										
RealPool Investment Fund	8.3	11.8	8.8	11.2	10.1	12.8	12.3	14.2	12.0	12.7

Note: due to the nature of the asset class, annualized returns for Private Placements (long-term, illiquid investments) can be misleading and, therefore, are not included in the table above.

Environmental Scan and Key Strategic Issues

The dynamic nature of the investment industry results in a constantly changing and highly challenging operating environment. The strength of our organization resides in our ability to anticipate and respond to future challenges. In looking ahead over the next three years, bcIMC has identified the following issues.

Clients

- Most of our pension clients are moving to a new joint-trustee governance model. These joint-trustee boards will be larger and board members will bring a diverse background and knowledge base to the governance of the pension plan investment activity. These boards will want more information on their portfolios and will be taking a more "hands-on" management approach.
- Client retention is key to the long-run viability of the Corporation and therefore our strategies must focus on meeting or exceeding client expectations with regard to return, risk and cost.
- The smaller clients will want additional services.

Investment Return

- Declining inflation and interest rates have led to very strong investment returns in past years. Since 1981 assets under administration have grown from $5.2 billion to $62.3 billion. This is an annualized growth rate of 13.4 percent (versus inflation, which has increased at an annualized rate of 3.7 percent).
- Given the current level of interest rates, it is expected that future rates of return will be more modest.

Market and Operating Environment

- Fund management operates in a highly dynamic environment and the ability of managers to add value is contingent on them anticipating and responding to changing market conditions, trends and opportunities.
- Technological advancements within the investment industry can enhance operational efficiencies and give an organization a competitive advantage.
- Technological advancements also change the nature of investee companies.
- Investment process and approaches must be continuously examined, tested and defined as part of the "plan – do – review" process.
- It is extremely difficult, if not impossible, to predict where markets will go in the short-run as investor sentiment is influenced by many factors and can change very quickly. However, in the long-term, returns are driven more by economic and capital market fundamentals. As such, effective pension fund managers must identify and capitalize on longer-term trends.

Risk Management

- Globalization of the capital markets and technology have greatly increased the flow and speed of capital around the world. This has had a number of consequences:
  - global capital markets without global regulation;
  - increased inter-day volatility;
  - high correlation of capital markets during periods of shock or crisis; and
  - increased sector correlation around the world given the multinational reach of corporations.
- In North America, the standard in compliance monitoring and oversight has been raised, requiring a higher degree of due diligence and manager monitoring.
- Through technology the investment industry is better able to quantify risks and model various scenarios.

Cost Structure

- As investment management activity becomes more global and sophisticated, bcIMC will require more dynamic and robust information systems along with highly dedicated professional investment personnel.
- The nature and structure of our costs will draw close scrutiny from our clients. Our costs will need to be reasonable relative to our value added. We want to strike the right balance between achieving high value added to our clients and being a lower cost service provider.

Goals and Objectives

All of the Corporation's business priorities and key strategies must directly contribute to the fundamental tenets of our Mission Statement:

- the highest standards of prudence and fiduciary responsibility;
- the highest return for a given level of risk; and
- at a reasonable cost.

Our business priorities represent themes that are core to our business and will continue to evolve over the foreseeable future (multiple years).

Specific key strategies are to be achieved over the next fiscal year and have a bcIMC Board-approved budget supporting the resourcing of the activity. As with any global operating business, bcIMC must be nimble and able to respond to the dynamics of the industry it operates in. Issues or events may preclude the achievement of all of the key strategies, but the themes will remain intact.

Business Priorities

The priorities for management will be concentrated on the following five general areas.

1. Investment Returns

- bcIMC will continue to attempt to meet or exceed market benchmarks and add value through astute investment decisions.

2. Risk Management

- Over the next two years, management will conduct an in-depth review of specific risks to ensure that the risks are being controlled, measured and monitored in a best of practices manner.
- Where risks are taken on to enhance returns, it is important to have a robust regime of analysis and measurement that is readily available to decision-makers.

3. Communications

- Management recognizes the need for clear and informative communication to clients, so that clients are better informed about the Corporation and issues affecting them.
- bcIMC has a role to play to help clients/trustees understand the complexities of global fund management and key issues facing their fund.
- In order to respond to client interests, more resources will need to be applied to content and the ways we convey information.
- Management will also strive to enhance communication internally, both to staff of the Corporation and to the Board of Directors, so that employees and Board members are well informed on matters affecting them and the Corporation.
- The Corporation is also faced with responding to an enhanced public profile and will seek, where appropriate, to better inform the public at large regarding the Corporation's activities.

4. Systems Improvements

- The Corporation has a backlog of systems requirements, enhancements and efficiency gains. A detailed analysis is being conducted including a systems architecture review, which will result in a significant systems workload and budget requirement.
- Concurrent with the systems initiatives, business process reviews are being conducted in program areas to ensure that the management processes and requirements are effective and efficient.
- It is anticipated that significant improvements will be made in the areas of management information, risk management and client communication.

5. Human Resources

- The Corporation relies heavily on the intellectual capital possessed by its employees in the areas of investment management and information technology. Individuals with expertise in these fields are highly sought after, and generally very mobile. Strengthening the human resources component of the organization is essential to both ongoing success and as a precursor to specific initiatives such as repatriating some of our externally managed assets.
- The Corporation will have to ensure that its human resource policies are best of practices, particularly with respect to recruitment strategies, succession planning, employee evaluation and employment equity.

Key Strategies

The table below describes several strategies bcIMC will focus on in the near future, as well as the results we expect to achieve by following them.

Key Strategy	Results Expected
1. Develop a plan to respond to the absolute reduction in the size of Canadian government debt (federal and provincial). This will be achieved by researching alternative debt instruments.	Alternatives for the return/risk profile of government bonds.
2. Separate the portfolio management role and the equity trading responsibilities with clear lines of accountability. This also reinforces the corporate culture that risk management is everyone's responsibility.	Reduced operational risk.
3. Develop a series of enhanced equity index pools. These equity pools are designed to achieve index plus (50 to 100 basis points) returns while having the same risk profile as the underlying index (e.g. TSE 300)	Enhanced return at the same level of risk.
4. Expand the range of internally managed investment alternatives. Currently the EAFE (Europe, AustralAsia and the Far East) and European indexed equity pools are managed by external managers at a higher cost than bcIMC's cost.	Cost savings and more flexibility in fund management.
5. Continue the development of management information systems, particularly in the Private Placement, Real Estate and Mortgage areas.	Better information should lead to higher returns and risk information.
6. Enhance the portfolio returns through the use of our network and multidisciplinary expertise.	Enhanced returns and liquidity.
7. Expansion of Corporate Governance role by issuing revised guidelines and playing a more active role on portfolio investments.	Enhanced returns and corporate responsibility.
8. Develop a more robust client communication plan that would assist fiduciaries and beneficiaries in their understanding of investment issues. This would include a web-based communications capability.	Enhanced delivery of fiduciary responsibilities.
9. As on ongoing practice, operational risk must be re-evaluated constantly. A full review of current "best practices" will be undertaken this year.	Enhanced risk management and risk reduction.

Performance Measures

1. **Total Returns** – bcIMC's goal is to meet or exceed the following targets for pension funds under management:
   (a) total fund market benchmark return; and
   (b) total fund actuarial required return that is used to assess the pension liabilities.

2. **Asset Class Returns** – bcIMC's goal is to meet or exceed recognized market investment performance benchmarks. Attached as Appendix 1 is a table setting out the benchmarks that will be used to measure investment performance.

3. **Cost Effectiveness** – bcIMC's goal is to maintain a cost structure at or below the average for its peer group (the Corporation participates in an industry survey, and strives to keep its costs at or below the mean for our peer group within the survey).

4. **Risk Management** – bcIMC's goal is to ensure financial and other internal controls are in place that effectively manage risks to ensure that funds under management are protected, and that the Corporation meets its fiduciary duty. This will be achieved through:
   - maintaining internal controls and compliance measures that are "best of practices";
   - documentation of internal controls and compliance measures;
   - clean audit opinions on financial statements and internal control measures;
   - creating and maintaining a culture where all bcIMC employees are risk managers and where compliance to the highest standards is expected; and
   - testing compliance and business continuation plans.

5. **Improved Communications** – bcIMC's goal is to improve its communications, both internally and externally. This will be achieved through initiatives such as the development and implementation of internet, intranet and extranet strategies, and a timely and informative annual report. Clients will be surveyed as part of bcIMC's efforts to improve communications.

Benchmarks for Measuring Investment Performance

bcIMC-Managed Pooled Investment Portfolio	Benchmark
Short-Term	
Short-Term Fund 1	SCI 91-Day T-Bill
Short-Term Fund 2	SCI 91-Day T-Bill
Short-Term Bond Fund	SCI Short Government Bond
Mortgages	
Fixed-Term Mortgage Fund	SCI Short Bond + 1%
Construction Mortgage Fund	SCI One-Year T-Bill + 1%
Bonds	
Indexed Government Bond Fund	SCI Government Bond Universe
Pensions' Bond Fund	SCI Government Bond Universe
Canadian Corporate Bond Fund	SCI Corporate Bond Universe
Long Term Bond Fund	RBC-DS Long Government Bond
Canadian Stocks	
TSE 300 Index Equity Fund	TSE 300
TSE 300 ex Equity Fund	TSE 300 less return of any company that has more than a 10% weight in TSE 300
TSE 100 Index Equity Fund	TSE 100
Active Canadian Equity Fund	TSE 300 Capped
U.S. Stocks	
S & P 500 Index Equity Fund	S & P 500
Active U.S. Equity Fund	Russell 1000/Russell 2000
U.S. Value Index Fund	S & P/Barra Value
Non-North American Stocks	
International Equity Fund	MSCI EAFE Net
European Equity Fund	MSCI Europe Net
Asian Equity Fund	MSCI Pacific Basin Net
Real Estate	
RealPool Investment Fund	CPI + 4%
Private Placements	
Private Placement Funds	TSE 200 + 3%*

* NOTE: To be assessed correctly, Private Placements performance must be measured over the life of the fund. Year-by-year performance returns can be misleading.

Explanation of Abbreviations:

SCI = Scotia Capital Index
RBC-DS = Royal Bank of Canada Dominion Securities
TSE = Toronto Stock Exchange
S & P = Standard & Poor's
MSCI = Morgan Stanley Capital International
CPI = Consumer Price Index